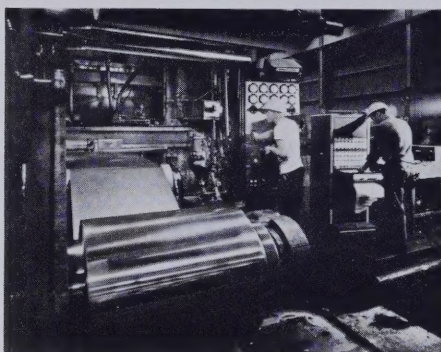


CLEVITE '65



The cover pictures illustrate Clevite's expanding activities in four major markets: Transportation; Communications; Machinery; and Government. The Marketing Portfolio that begins on page 9 of this report outlines our activities in these markets and suggests some of the areas where Clevite expects to grow in the coming years.

Financial highlights of the year

	1965	1964
Revenues	\$118,223,245	\$113,980,385
Income before income taxes	19,254,546	15,526,840
Earnings	9,703,546	8,002,840
Percent of earnings to:		
Revenues	8.2%	7.0%
Shareholders' investment	14.7	12.4
Per common share outstanding:		
Earnings	5.11	4.05
Dividends—cash	1.65	1.45
Dividends—stock	—	2%
Taxes	6.34	4.89
Book value	35.19	33.27
Capital additions	7,167,498	7,148,743
Depreciation	3,526,358	4,598,149
Net working capital	38,889,323	37,800,819
Employees	6,003	7,305
Stockholders	9,199	8,704

About 1965, 1966 and Clevite's Plans . . .

TO OUR SHAREHOLDERS:

The economy was so good in 1965 that it would have been difficult to turn in a bad performance. It is easy to delude oneself into thinking that things will *always* go up at such a heady pace, yet in our more reflective moments we all know that this isn't so. Therefore, I will try to single out developments at Clevite that have meaning beyond the context of our robust economy.

We did grow a lot faster than the economy as a whole. The Gross National Product increased 7.6 percent*. Clevite's per-share earnings increased 26 percent.

This follows a steady pattern of rapidly increasing per-share earnings in recent years. In fact, in the past five years Clevite's per-share earnings have nearly doubled.

Last year's record was a good performance by any standard. Only a part of our success is reflected in the year's sales figures. Due to the sale of our semiconductor business at the start of the year we lost many millions of dollars in sales. Just the same Clevite's sales for the year reached a new high. I think we will do even better in the future—by virtue of the people, products and plans that stand out when you take a comprehensive look at the company.

People

First, about our people, the essential fabric of any organization.

It would be less than candid of me to hide our regrets over the loss of so many capable and loyal employees as a result of the sale of our semiconductor business.

I am thankful that it worked out as well as it did. We worked hard to see that our 1600 employees affected by the sale received fair treatment. Many found jobs with the purchasing companies. A number who had special qualifications joined other Clevite divisions. We assigned many of our men to helping others find new jobs.

Bright young men. . . . One of the most important and gratifying aspects of being an officer of a sizeable company is making sure the tradition of executive excellence is developed in each new generation. Our younger executives outdid themselves and several of them earned top positions in

*Commerce Department Estimate

the company. Clevite is a *hard-working* company—an important factor rarely considered in the evaluation of a company's assets.

Here are some of the key staff developments during recent months:

Ralph E. Schey, 41, was elected vice president-treasurer, succeeding O. P. Gokay whose resignation we accepted after more than 19 years of loyal service. Mr. Schey joined the accounting department in 1951. Since 1961 he has managed the Harris Division, our second largest business—rubber-and-metal parts.

Kenneth M. Leighton, 48, who managed one of our bearing operations, was appointed to succeed Mr. Schey as general manager, Harris Division.

Dr. Milton L. Selker, 50, was appointed director of our Mechanical Research Division.

We were happy to welcome L. H. Begg, 49, to Clevite. He was formerly with Britain's largest automotive bearing producer. He will manage the bearing manufacturing division we are setting up near London and have responsibility for all bearing operations in Europe.

D. J. Taysom, 43, will also be wearing two hats. He has assumed general management of European electronic operations, in addition to his duties as managing director of Brush Clevite.

Leonard J. Connor, 46, formerly works manager of our Canadian bearing operation, was made managing director of Clevite Italia, our Italian bearings manufacturing subsidiary.

James J. Tracy, Jr., 37, formerly with a major auditing firm, joined us as director of corporate development and acquisition.

I think it is interesting to note that about two-thirds of our senior officers and top line executives are in their forties and only four are over 55, which is considered just "coming of age" in a good many companies. We are looking to these men to keep us growing profitably.

Strength at the top. . . . What a difference a strong, effective and active board makes to a company! Our board is made up of one-third Clevite management men, two-thirds outsiders. Like our top officers, the directors are young . . . their average age is 57.

In 1965 the attendance of board members at regular meetings was excellent. We have a policy of holding some meetings at our plant locations to give our directors first-hand knowledge of our operations . . . and to give plant employees and community leaders a chance to get acquainted with our top people. For example, in May directors toured Clevite's McConnelville and Caldwell, Ohio plants. Their meeting in November convened at Brush Instruments.

At the annual meeting, shareholders elected as new directors Claude M. Blair (president, Ohio Bell Telephone Company); George McCuskey

(vice-president—finance, The Youngstown Sheet and Tube Company); and S. J. Begun, William D. Cameron and John H. Harris, all vice presidents of Clevite.

It was with great regret that we accepted the resignation of one of our finest directors, Dr. T. Keith Glennan. His new responsibilities as president of Associated Universities, Inc. of New York will require his full attention. He gave us more than 10 years of dedicated service.

A good place to work. . . . The particulars of wages and fringe *benefits* are largely decided at a negotiating table in modern industry. This can lead to a false illusion that employee *relations* are decided in the same way. We are constantly working to attain a desirable and improving package of wages and benefits for all employees, within a framework that we and our customers can afford. We have also pioneered in special benefits which are not subjects for negotiation, but which indicate our concern for our employees' health and safety. Examples are Clevite's continuing safety program; free medical examinations for glaucoma, T.B., diabetes and other diseases; constant attention to housekeeping details like good lighting and clean plants. These things are a big plus for Clevite employees. They evidence a concern no contract could spell out.

Our compensation ranks with the best, and all the usual yardsticks—such as employee turnover and length of service—indicate that the employees themselves, as well as shareholders and customers, have benefited from this relationship.

Products

We are often honored by visits from security analysts of leading investment brokerage firms. We find them very interested in the increasing diversity of Clevite's businesses.

As a result of our product development programs, the rapid growth of some of our smaller businesses and our investments in other countries, we are not predominantly tied to the new car market in the U.S. In 1965 approximately 25 percent of our sales were for use in new U.S. passenger cars. Our other markets follow largely independent growth curves. This diversification has been accomplished with great effort, and at the expense of our earnings in some years past. It is part of a program to make us as invulnerable as possible to the ups and downs of any single industry.

The illustrations in this report are designed to define the four basic market areas that Clevite serves—transportation, communication, machinery, and government.

This view of our business is an attempt to organize our activities in a manner best suited to our customers' needs, rather than to follow patterns which may have grown up accidentally. The first three market areas have immense growth potential. The fast and efficient transportation of people and goods is not a luxury but a necessity. Efficiency of com-

munications goes hand-in-hand with transportation as a mark of a nation's viability. Clevite's machinery markets are varied, but in common with other markets we serve, our products go largely into applications that have the promise of growth.

Clevite's government business has been growing along with our other businesses, but we all recognize that its long-range opportunities are less predictable. At present there are no conspicuous signs of a reversal in our national policy of preparedness and continuing space exploration and defense.

We serve these markets with products of a high technical content. Our technical capabilities give us a secure position from which we will not easily be dislodged.

Transportation Markets

We continue to be the largest independent supplier of sleeve bearings in the U.S. But as indicated above, our diversification programs are making the bearing business a smaller proportion of our total business.

U.S. automotive manufacturers produced a record number of cars and trucks in 1965. We held to a commanding position in supplying bearings and rubber-and-metal parts for a large percentage of these 11,100,000 vehicles. Our position in Canada, through Clevite Limited, also remained very strong.

Our market goal is to develop or maintain a solid position in this field in every industrialized country in the Free World.

Our new British Bearing Division, which will represent a \$1.8 million initial investment, will begin operation early in 1966. At great cost, we expanded the scope of our replacement bearing operation which serves Common Market countries. Both of these new operations are important steps toward our long-term goal of being a major supplier of sleeve bearings in the European market.

Our largest plant expenditure was for the new \$2 million bearing facility in Bridgeport, Ohio, which went into operation in August. The new plant not only increases our capacity, but gives us a significant improvement in cost and quality. Other capital programs included the addition of rubber-and-metal production facilities to our Mexican bearing plant, and the acquisition of a one-third interest in a Mexican company producing replacement parts for diesel engines.

Bimetal Bearings Limited, our affiliated company in India, had a profitable year. The performance of this group has been outstanding since its beginning, just five years ago. Repco Limited, for many years our Australian bearing licensee, is a partner in this venture.

Our rainy day business. . . . We have a good moneymaker in our replacement bearing business. 1965 was a good year, with sales in every quarter up from 1964—up a total of 16 percent for the year.

Most replacement bearings go into the rapidly expanding used vehicle market—though a surprising amount of Clevite's replacement business is in other areas. Virtually all of the aircraft bearings we make are used for replacement purposes. We have replacement business in other products as well—for example, we have a profitable replacement parts business in instruments.

This replacement business is an important part of our total sales every year. It has an added importance for Clevite that is not fully appreciated in a year where all the emphasis was on new car sales. But when a downturn comes—when people think in terms of fixing up instead of scrapping—this business will really receive the recognition it deserves.

Our Profitable Misnomer. . . . Clevite's second largest unit, Harris Division, makes rubber-and-metal parts. The transportation industry used more of them in their suspension and steering systems during 1965 than ever before.

It may be that the term "rubber-and-metal" is a misnomer. Rubber is only one of many polymers, and not the only one we are working with. For some time we have been using polyurethane as an alternative for rubber in some suspension applications. In 1965 we supplied a considerable number of these parts, and continued experimenting with other substitutes. If you can think of a better term than "rubber-and-metal" that people can understand, please let us know.

A special type of rubber-and-metal part, called "Clevebloc," has been successfully used in steering systems. This year "Clevebloc" will have an additional application—in the suspension system of a 1966 model car. We look for more applications of this new Clevite principle in a variety of industries.

I think you would be surprised to know how much Clevite's rubber-and-metal parts—well concealed in a finished car—have contributed to your comfort in recent years. Smoothness of steering and comfort of ride depend to a large extent on these parts we developed and now make in volume.

Communications Markets

Sometimes development work really pays off. Our copper foil business is the result of years of hard work in process and market development. Our foil is so good many consumers use it as a standard for purity and precision.

In 1965 we continued to build on this strong development base:

- We acquired the United Kingdom's leading producer of electroplated foil;
- We completed a project that doubles our U.S. foil capacity.

These steps give us a strong position among the world's producers of copper foil.

The future is promising, too. The growth of industry, particularly communications, throughout the world means more and more electrical devices and circuits. Copper supplies are limited, and a copper foil circuit makes a much more economical use of copper than does comparable standard wiring.

We make a number of other products for the communications industry. No company in the world equals our technical abilities in the piezoelectric field. While this business was profitable in 1965, much remains to be done to bring it to full fruition.

Piezoelectric materials have most unusual properties. They change shape when an electrical charge is applied—or develop an electric charge when forces are applied which change the shape of the material. For reasons that can best be explained by a Ph.D. this makes them useful as components of radio filters. Selecting one radio signal desired out of the many hundreds that fill the air is a problem that will continue to grow apace. The accuracy and efficiency of our filters make them good growth candidates.

Machinery Markets

We have a number of divisions serving the extremely broad industrial machinery market. They employ a number of highly developed capabilities which can be put to use in a wide range of applications.

Our instruments business is reaching into new industrial areas. In 1965 we sold our first recorder to a steel mill to monitor process equipment. This is an application where instruments have to be good . . . or else!

Within months, we had on the books a number of orders for similar applications. We also signed an agreement with a major producer of medical systems who will use only our recorders in their systems.

Our rubber-and-metal business—largely serving transportation—is working in a variety of other areas including, for example, appliances, utility applications and textile mills.

In addition to our automotive bearings, we have for years supplied vast quantities of bearings for other industrial markets—bearings for use in electric motors for example.

For several years we have been quietly working on a new type of bearing which can serve in certain applications as an alternative to more expensive ball and roller bearings (which Clevite does not make). Market tests during the year indicate we can satisfy the technical requirements for bearing performance in several different industrial applications. As a result, we are getting our first production orders.

Clevite, then, is a well-established participant in many machinery markets as well as a newcomer to many more. It requires careful management in every respect to be certain that we maintain all of our technical and profit standards in these new environments.

Government Markets

Year after year we forecast conservatively and plan for a tapering-off in government demand for our instruments. Year after year we are pleasantly surprised when the dollar volume of our government business grows right along with our other instrument business. Government agencies and contractors are now using so many of our instruments that last year they asked us to run training schools at several installations for their employees.

We did substantial market testing in Europe during 1965 for new instruments business, both government and industrial. We expect a worthwhile growth in export sales to this area in 1966.

The vicissitudes of our Ordnance business last year are worth noting. We are widely recognized as having the best underwater ordnance development team in business. We entered the year having done the lion's share of the design work on a new Navy anti-submarine torpedo, and we bid on major production contracts in partnership with carefully selected companies. We didn't get what we wanted, but we did receive contracts to build the engine we designed . . . and Ordnance doubled its business for the year. Early in 1966 we received notice of substantial new contracts . . . and we are well-qualified for more production business. Our current Ordnance backlog is the largest in history, and we are assured of high-level operations through 1966. All-in-all, it was a nerve-wracking year for our Ordnance people, and they are to be congratulated on a fine performance.

Our Aerospace operation lost much of its anticipated business in fuel cell electrodes because of government program modifications. We continue to work with Pratt & Whitney on electrodes for the Apollo program, but at the moment no firm business beyond this is assured.

At Aerospace we also have a highly developed ability to control the porosity and other physical characteristics of powdered metals . . . but we must recognize that the real payoff is years ahead. Precision control and filtering of fluids will be of growing importance in America, and we are working with a number of industries to develop useful materials for that purpose.

Financial Developments

We paid cash dividends of \$1.65 per share in 1965, higher than ever before. In the first quarter of 1966, our directors raised the quarterly dividend to \$.52½ per share, the third increase in two years. Capital additions exceeded \$7 million for the second consecutive year. Research expenditures were approximately \$8.6 million, much higher than the year before.

At year-end the ratio of current assets to current liabilities was 3.5 to 1.

The sale of the semiconductor business was a benefit to our shareholders. The proceeds—over \$12 million—were partially used for what

was in my opinion a very desirable "acquisition." Clevite always keeps an eye out for good businesses to buy. This time we bought part of ourselves!

We retired all 15,243 shares of Clevite's 4½ percent preferred stock and by year-end had purchased a total of 112,700 shares of the common stock. Corporate per share earnings, already higher than in any previous year, were increased by \$.31 per share as a result of the purchases.

For several years, Clevite has claimed that the U.S. government violated a basic patent in barium titanate piezoelectric elements to which we have exclusive rights. After exhaustive court hearings the case was finally taken to the Court of Appeals. Clevite was awarded half of the total cash settlement of \$2,000,000, the largest for patent infringement ever made against the U.S. government.

Clevite's financial position got a boost this year from the above legal decision and from a tax treaty. The West German legislature ratified an agreement which reduced the capital gains tax on the disposition of our semiconductor business.

Plans

So much for 1965. On almost every front it was the best year we ever had.

Most of our plans and programs for 1966 are well laid out, and early results are right on target. It will be an excellent year, by all indications.

The accomplishments I have mentioned in this letter did not occur by accident. They had their source years ago—in the board room, in a laboratory, on a drawing board, or in the mind of one of our men. They were the ideas and plans that survived the intense economic and competitive pressures that face every growing company.

We are as active in planning for 1970 as we are in planning for 1966, and at no time in the years I have been with Clevite have I had such a good feeling about the future of our company. Much of this rests on research work or growth plans that will not reach fruition this year or next. But I do anticipate a steady pattern of accomplishment in the years ahead.

There is no single key, of course, to the future. It rests upon a combination of people, products and plans.

I believe we have a winning combination at Clevite.

William E. Laffer

President

Cleveland, Ohio
February 23, 1966



CLEVITE

***Marketing
Portfolio***

We view Clevite's operations in terms of four major markets, each with its own dynamic growth opportunities:

Transportation

Communications

Machinery

Government

Every Clevite operating unit contributes to more than one of these markets.

Every Clevite unit continues to use its technical and production abilities to broaden Clevite's marketing base. By participating more fully in every market, Clevite is less subject to ups and downs of any one market.

Our varied activities in these four areas, and the opportunities for still greater Clevite participation, are represented in this portfolio.

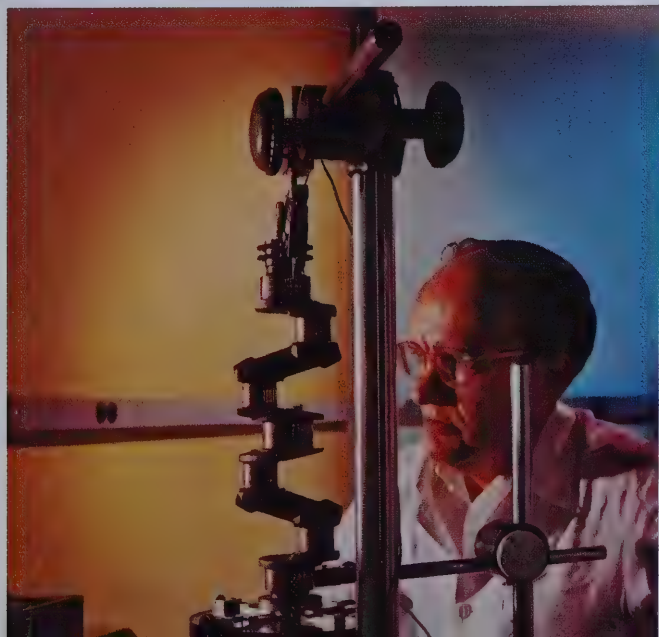


This automatic plating line, designed by Clevite engineers for CGB's new Bridgeport plant, can deposit a precision layer of lead-tin-copper alloy on thousands of F-77 bearings every hour. This bearing takes a greater load than any other made today. It is finding new heavy duty applications in earthmoving equipment, trucks, tractors, and marine engines.



TRANSPORTATION

Getting the goods to market—and people where they want to go—on time. These problems are solved every day by the transportation industry, which, itself, has become a market to be served on time. Clevite was there early. From its start in 1919 Clevite served transportation and has stayed on top of industry problems ever since. Clevite's creative development of components to allow heavier loads to move farther, faster, smoother and more economically for longer periods without breakdown has brought continuing leadership in the field. Transportation's prospects have never been brighter; it is growing at an unprecedented rate. Clevite's participation in this market is growing even faster as it extends its skill and ability to serve customers throughout the Free World.



A measure of the transportation industry's vitality and potential is ML-12, the New York Central's car-train, which roars along Cleveland's lakefront each day on its way from Detroit to markets in the east. Many of the 2,000 new automobiles and trucks it carries use Clevite-built parts: sleeve bearings; rubber-and-metal parts. The engines hauling the train and the railroad cars themselves are markets for Clevite diesel engine bearings and railroad journal bearings.

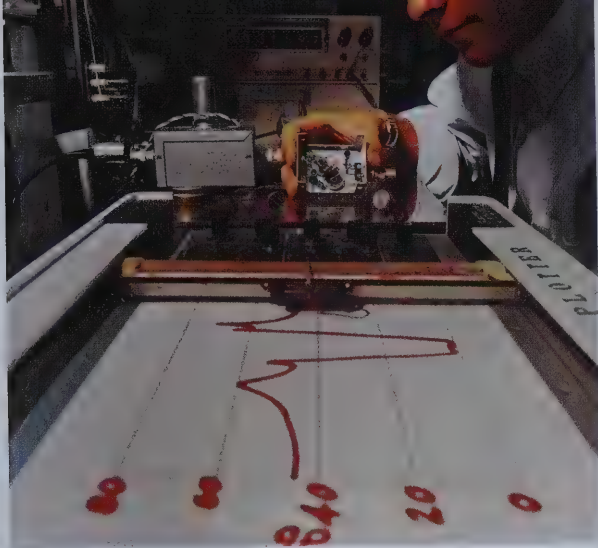
Clevite's bearing research and customer service programs use equipment like this high-precision tracing device to measure patterns of wear on used crankshafts and to monitor the adequacy of finishes on new shafts. Clevite also uses the equipment to insure that its bearings are produced to rigid tolerances.

COMMUNICATIONS

The acceleration of modern communications has enlisted all of man's technological skills to transmit vast amounts of information across great distances at lightning speed. Clevite copper foil provides printed circuits for everything from the simplest radio to the most complex missile. The Brush recorder measuring the astronaut's heartbeats also monitors machines and controls traffic. Clevite makes magnetic recording heads and magnetic belts. Our know-how with piezoelectric materials helps build radio filters with many applications and phonograph pickup elements. In these and other ways Clevite contributes to the communications revolution—a revolution which accelerates growth in the transportation, government and machinery markets as well.



The copper foil, electroformed on these revolving drums at Clevite's McConnellsville plant, is the purest and most uniform in the world—necessary requirements for space-age circuitry.



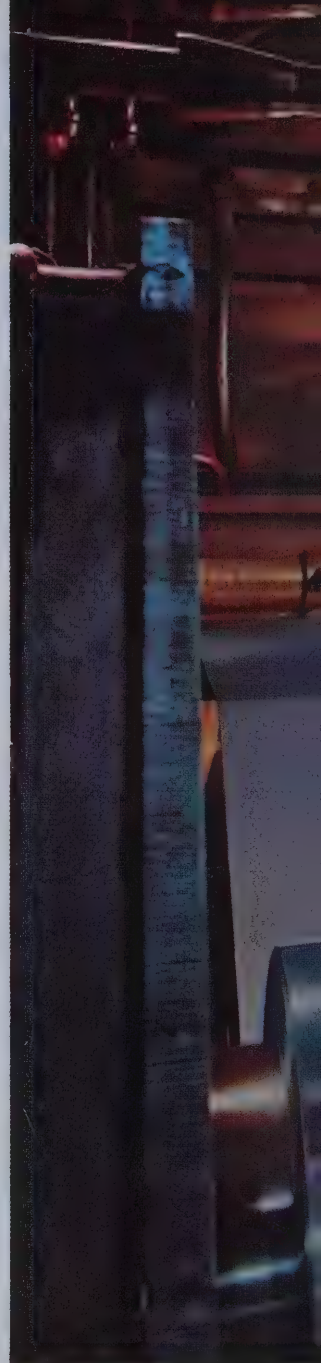
Charting the "pass band" frequency of this quartz unifier, is one step in Clevite's continuing program to develop new applications for materials with piezoelectric properties. The filter, developed under military contracts, has commercial potential for police and taxi radio call systems and other local radio band operations.

The greatest communications' challenge today: talking to men at the ever more distant frontiers of space. At NASA's mission control center, Houston, during the flights of Gemini VI and VII, Brush recorders were on duty. They translated a faint signal, transmitted across thousands of space miles, into accurate and readable records of astronauts' heartbeats, body temperatures and other medical data. The job is typical of what the communications market demands today and what Clevite can deliver.



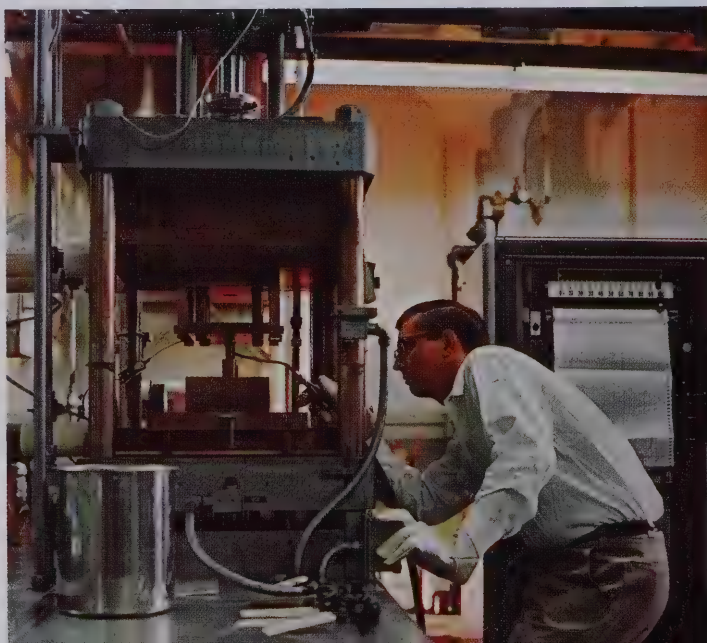


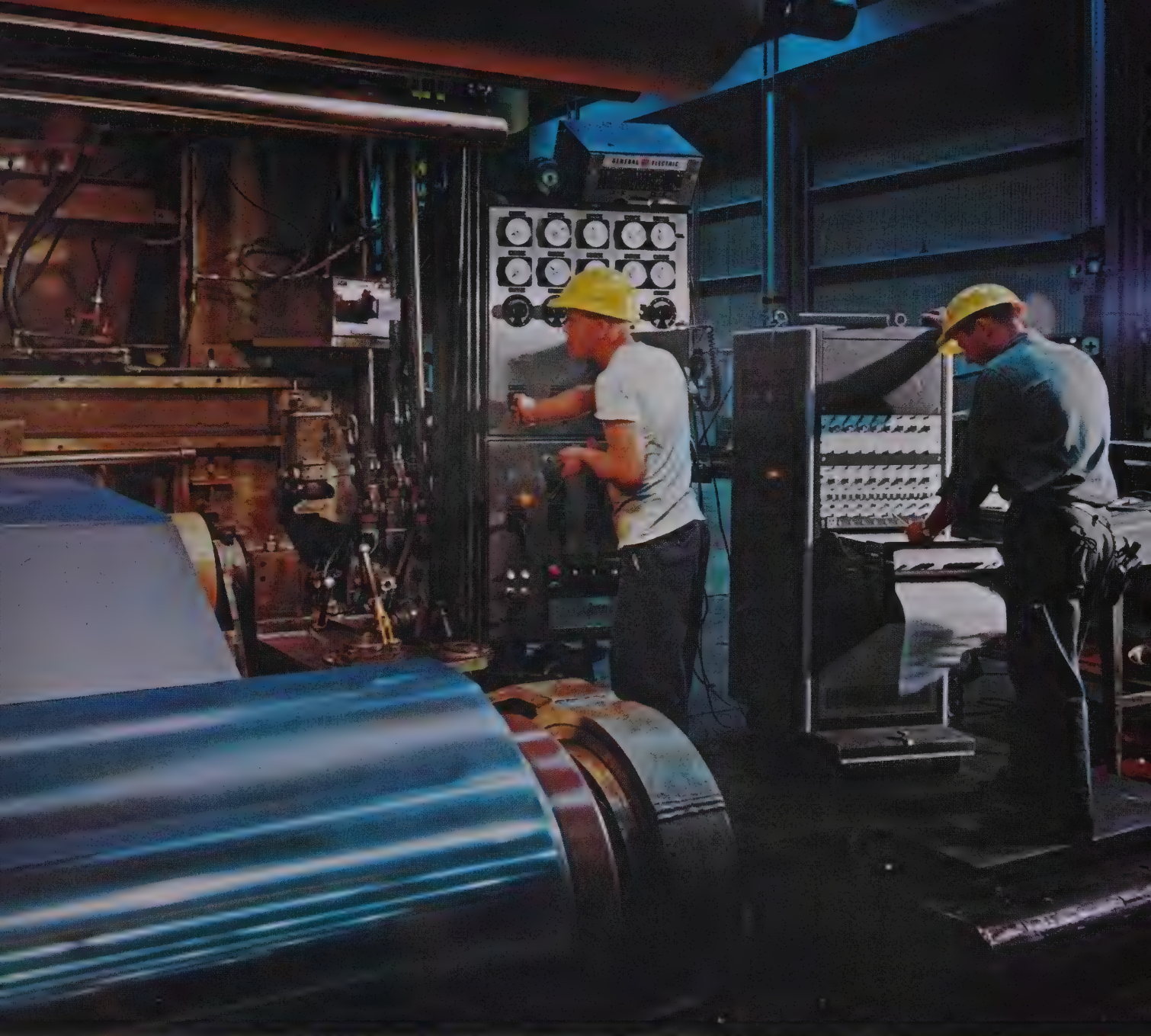
These rubber inserts, designed specifically for use in automotive suspension systems, have been washed in acid to remove contaminants, rinsed and tumbled dry by employees at Clevite's Harris Division in Milan, Ohio. This same technology is used to produce other rubber-and-metal parts which solve vibration problems in a variety of machines from textile looms to appliances.



One phase of Clevite's research into the properties of rubber compounds and polymers is carried on at the Research Center.

This technician is using a transfer molding press to make test quantities of rubber inserts for experimental applications.





The Brush Instruments Division found a new customer for its Mark 200 recorder at a stainless steel rolling mill. The Brush recorder pinpoints trouble spots with complete safety to the operator. New applications like this increase Clevite's participation in the machinery market every year.

MACHINERY

Machines come in all shapes and sizes. They do every imaginable kind of work. Clevite is in the machinery market solving problems basic to all machinery—friction, vibration, wear. What we are already doing for some machines, we expect to do for many more. For instance, the know-how we developed to produce an automobile camshaft bearing applies to bearings for electric motors. The rubber-and-metal parts we make to damp road vibration also helps damp vibration in your washing machine. Continuing research is producing other new applications and new parts, like a package bearing, to provide expanding opportunities for Clevite growth in the immense machinery market.



In this training room at Groton, Connecticut, seasoned sailors prepare for cruises on the Navy's growing fleet of atomic-powered submarines. The new subs are equipped with Clevite sonar elements to locate the enemy and anti-submarine torpedoes powered with Clevite's efficient hot-gas engine. Clevite-built transducers help "see" the enemy and keep the torpedo on target.

GOVERNMENT

The United States government is a customer with a \$112 billion plus shopping list—too big and too challenging a customer for any business to ignore. It buys for man's present and future needs, and Clevite provides technical and production ability to fill those needs. We not only work for the government in outer space developing the solar cell as an efficient and economical source of power, but also under the sea, devising ways for man to communicate and survive in the alien medium. Clevite makes seals for rocket engines, fuel cell electrodes for new sources of power and is doing development work on composite materials for rocket nozzles. As long as our government is guided by man's greatest dreams, this market will continue vital and alert to excellence—open to the contribution companies like Clevite can make.

Final assembly of a torpedo at Ordnance Division includes a check on rudder and elevator movement and final connection of the hot-gas engine, alternators, fuel and water pumps, and sea water battery, to the torpedo's large fuel tank.



The solar cell converts sunlight directly into electrical energy efficiently without adding much weight to a spacecraft. Clevite has been at work for several years on special projects like this that will have broad government and commercial applications in the coming years.

Consolidated results of operations

	1965	1964
REVENUES		
Net sales	\$116,169,115	\$112,096,466
Other revenues	2,054,130	1,883,919
Total revenues	<u>118,223,245</u>	<u>113,980,385</u>
COSTS AND EXPENSES		
Cost of goods sold	80,251,647	78,250,088
Selling, general and administrative expenses	17,821,144	19,494,193
Other expenses	1,057,064	709,264
Total costs and expenses	<u>99,129,855</u>	<u>98,453,545</u>
Earnings before income taxes and nonrecurring items	19,093,390	15,526,840
Provision for federal and foreign income taxes	9,551,000	7,524,000
Earnings before nonrecurring items	<u>9,542,390</u>	<u>8,002,840</u>
Nonrecurring items, net of taxes		
Gain on patent settlement	520,000	—
Loss on sale of semi conductor business	<u>358,844</u>	<u>—</u>
EARNINGS	9,703,546	8,002,840
RETAINED EARNINGS, JANUARY 1	47,859,467	44,364,338
	<u>57,563,013</u>	<u>52,367,178</u>
<i>Deduct:</i>		
Dividends paid in cash:		
Preferred stock, per share:		
\$1.98—1965; \$4.50—1964	36,268	94,617
Common stock, per share:		
\$1.65—1965; \$1.45—1964	3,189,657	2,827,725
2% stock dividend at market value	<u>—</u>	<u>1,585,369</u>
RETAINED EARNINGS, DECEMBER 31	<u>\$ 54,337,088</u>	<u>\$ 47,859,467</u>

See Notes on page 20

Consolidated financial position

	December 31	
	1965	1964
CURRENT ASSETS		
Cash	\$ 3,450,912	\$ 5,662,624
Marketable securities	5,698,293	135,216
Receivable from customers and others	16,831,312	17,477,789
Inventories	28,340,876	31,382,001
	<u>54,321,393</u>	<u>54,657,630</u>
CURRENT LIABILITIES		
Notes payable	916,853	1,832,500
Payable to suppliers and others	9,235,929	9,714,513
Federal and foreign taxes on income	5,279,288	5,309,798
	<u>15,432,070</u>	<u>16,856,811</u>
NET WORKING CAPITAL	<u>38,889,323</u>	<u>37,800,819</u>
Property, plant and equipment	29,141,100	31,778,184
Prepaid costs and other assets	3,289,549	3,456,519
Intangible assets acquired in purchases of subsidiaries, less amortization	<u>372,848</u>	<u>372,848</u>
	<u>71,692,820</u>	<u>73,408,370</u>
<i>Deduct:</i>		
Long-term debt, less \$832,500 current portion	4,708,359	6,008,460
Minority interest in subsidiary companies	445,189	436,149
NET ASSETS	<u>\$66,539,272</u>	<u>\$66,963,761</u>
SHAREHOLDERS' INVESTMENT		
Preferred stock—\$100 par value	\$ —	\$ 1,937,200
Common stock—\$1 par value:		
Issued	2,003,543	1,954,318
Stock dividend payable	—	39,087
Capital in excess of par value	15,328,860	15,173,689
Retained earnings	54,337,088	47,859,467
	<u>71,669,491</u>	<u>65,026,561</u>
<i>Deduct:</i>		
Treasury shares, 112,700, at cost	5,130,219	—
	<u>66,539,272</u>	<u>65,026,561</u>
TOTAL INVESTMENT	<u>\$66,539,272</u>	<u>\$66,963,761</u>

See Notes on page 20

Notes to financial statements

Inventories

Inventories are stated at the lower of cost or market. Approximately 13% of total value at December 31, 1965 and 12% at December 31, 1964 represented cost of the metal content of certain inventories as determined by the last-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost less accumulated depreciation of \$34,954,058 at December 31, 1965 and \$37,593,337 at December 31, 1964.

Long-Term Debt

Long-term debt includes \$4,177,500 of 3¼% notes payable to an insurance company. The notes, originally in the principal amount of \$15,000,000, are due in installments of \$832,500 per year from March 1, 1966 to March 1, 1970 and \$847,500 on March 1, 1971.

As of December 31, 1965 the note agreement permitted the Corporation to pay dividends out of retained earnings up to but not exceeding an amount of \$27,753,201.

Preferred and Common Stock

At December 31, 1965 the authorized common stock consisted of 2,500,000 shares of which 2,003,543 were issued (including 112,700 treasury shares). The preferred stock authorized but unissued and remaining eligible for issue amounted to 32,846 shares.

In accordance with the articles of incorporation \$412,880 was expended during February and March 1965 for the retirement of 4,129 preferred shares. The 15,243 remaining preferred shares were called for redemption on June 7, 1965 at \$101.80 per share for an aggregate redemption price of \$1,551,738.

During 1965 capital in excess of par value increased in the total amount of \$155,171 representing (a) \$187,185 excess of option price over par value of common shares issued under the Corporation's stock option plan, less the sum of (b)

\$27,418 premium on purchase and retirement of outstanding preferred shares and (c) \$4,596 excess of cost of common treasury shares sold over the sale price thereof.

Stock Option Plan

Common shares authorized for issuance under the Corporation's stock option plan may not exceed 153,608. As of December 31, 1965, shares issued and sold totaled 74,111 leaving a balance of 79,497 shares. Of this amount 76,658 shares were reserved for issuance under stock options held by 91 employees. Option prices range from \$19.46 to \$66.32 per share. Share and price data have been adjusted for 2% stock dividends paid in 1964 and 1965.

Retirement Income Plans

The Corporation and its Canadian operating subsidiary have contributory trustee pension plans for salaried employees and non-contributory plans for hourly employees. The British subsidiary has a non-contributory insured pension plan for salaried employees. In 1965 charges against earnings for funding current and past service totaled \$1,055,000. The unfunded past service liability at December 31, 1965 was estimated to be \$3,940,000.

Contingencies

The Corporation is continuing to contest the Internal Revenue Service's proposed disallowance of a deduction for a government contract settlement taken in the Corporation's 1961 federal income tax return. The Corporation is convinced that its income tax treatment of the settlement was proper and, accordingly, no provision for the proposed tax deficiency (approximately \$1,456,000) has been made in the accompanying financial statements.

The Corporation is subject to renegotiation for 1964 and 1965 and to other business contingencies. The effect of any adjustment to earnings which may result from these contingencies cannot be determined at this time.

Opinion of independent public accountants

TO THE BOARD OF DIRECTORS OF CLEVITE CORPORATION

We have examined the consolidated statement of financial position of Clevite Corporation and its subsidiaries as at December 31, 1965, and the related consolidated statement of results of operations for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the year ended December 31, 1964.

In our opinion, the accompanying consolidated statement of financial position and consolidated statement of results of operations present fairly the financial position of Clevite Corporation and its subsidiaries at December 31, 1965 and 1964 and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Hyland, Ross Bros. & Montgomery

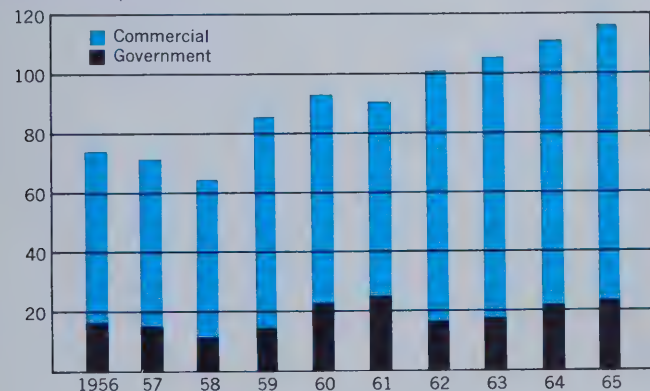
Cleveland, Ohio
February 10, 1966

Sources and uses of funds

	1965	1964
SOURCES OF FUNDS		
Earnings	\$ 9,703,546	\$ 8,002,840
Depreciation	3,526,358	4,598,149
Sale proceeds attributable to net non-current assets of semi conductor business (total sale proceeds \$12,321,000)	6,325,250	3,310,000
Other	268,983	255,007
Total	<u>\$19,824,137</u>	<u>\$16,165,996</u>
USES OF FUNDS		
Expenditures for plant and equipment	\$ 7,167,498	\$ 7,109,683
Cash dividends paid	3,225,925	2,922,342
Redemption of preferred stock	1,964,618	466,366
Reduction of long-term debt	871,451	622,787
Purchase of common stock for treasury	5,130,219	—
Other	375,922	981,128
Total	<u>\$18,735,633</u>	<u>\$12,102,306</u>
INCREASE IN NET WORKING CAPITAL	<u>\$ 1,088,504</u>	<u>\$ 4,063,690</u>

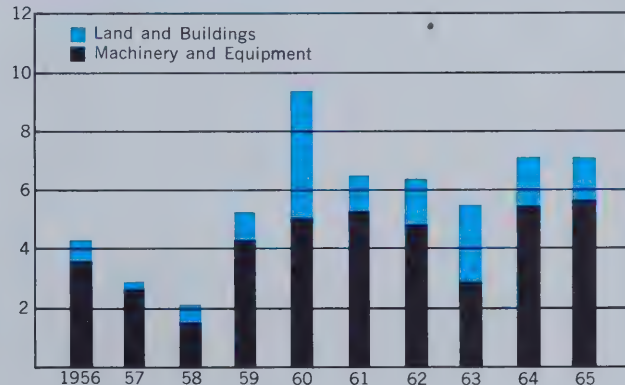
Revenues

MILLIONS \$



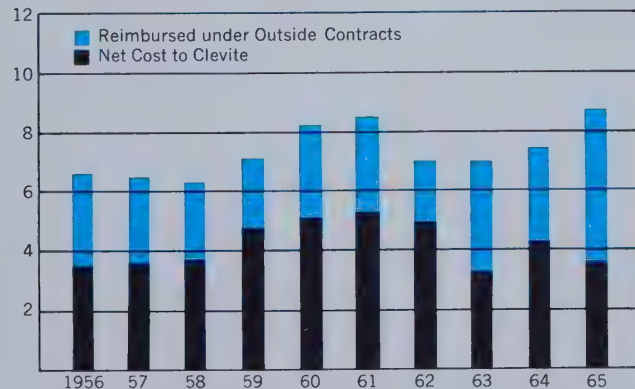
Capital additions

MILLIONS \$



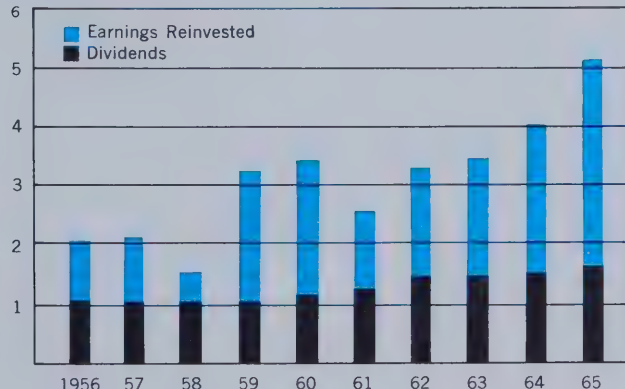
Research and development

MILLIONS \$



Earnings per share

DOLLARS



Ten-year statistics

	1965	1964
OPERATIONS (000):		
Revenues	\$118,223	\$113,980
Income before income taxes	19,255	15,527
Earnings	9,704	8,003
Cash dividends:		
Preferred	36	95
Common	3,190	2,828
Stock dividend	—	2%
Retained earnings	6,478	5,080
Property, plant and equipment additions	7,167	7,149
Depreciation	3,526	4,598
FINANCIAL POSITION AT YEAR END (000):		
Current assets	54,321	54,658
Current liabilities	15,432	16,857
Net working capital	38,889	37,801
Property, plant and equipment, gross	64,095	69,372
Property, plant and equipment, net	29,141	31,778
Long-term debt	4,708	6,008
Par value of preferred shares	—	1,937
Book value of common shares	66,539	65,027
PERCENTAGES:		
Income before income taxes to:		
Revenues	16.3%	13.6%
Shareholders' investment (average)	29.2	24.0
Earnings to:		
Revenues	8.2	7.0
Shareholders' investment (average)	14.7	12.4
PER COMMON SHARE OUTSTANDING:		
Earnings after preferred dividends	5.11	4.05
Cash dividend	1.65	1.45
Stock dividend	—	2%
Book value (year-end)	35.19	33.27
OTHER YEAR-END DATA:		
Number of employees	6,003	7,305
Number of common shareholders	9,199	8,704
Preferred shares	—	19,372
Common shares (000)	1,891	1,954
Common shares (000) to be issued as stock dividend	—	39

1963	1962	1961	1960	1959	1958	1957	1956
\$105,341	\$101,175	\$91,874	\$95,525	\$86,183	\$64,721	\$72,672	\$75,112
14,177	12,782	10,021	13,606	13,894	5,899	7,409	7,672
6,927	6,562	5,143	6,826	6,494	3,109	3,988	3,972
115	136	157	176	197	211	228	247
2,665	2,653	2,360	2,254	2,137	2,078	2,078	2,078
2%							
4,147	3,773	2,626	4,396	4,160	820	1,682	1,647
5,774	6,320	6,438	9,532	5,452	2,186	2,993	4,294
4,255	4,333	3,938	3,293	2,867	2,794	2,104	2,018
48,230	44,260	41,112	42,136	43,070	35,839	36,102	36,647
14,493	12,509	11,069	10,111	10,472	5,055	5,431	5,999
33,737	31,751	30,043	32,025	32,598	30,784	30,671	30,648
67,891	63,443	58,570	53,896	45,274	41,109	39,629	37,720
32,268	31,305	30,269	28,224	22,201	20,147	21,737	21,425
6,631	7,197	7,944	8,770	9,646	10,178	10,838	11,670
2,403	2,852	3,338	3,768	4,283	4,563	4,945	5,309
59,843	55,504	51,551	50,085	43,835	38,032	38,129	38,488
13.5%	12.6%	10.9%	14.2%	16.1%	9.1%	10.2%	10.2%
23.5	22.4	18.3	26.3	30.1	13.9	16.6	17.8
6.6	6.5	5.6	7.1	7.5	4.8	5.5	5.3
11.5	11.5	9.3	13.2	14.1	7.3	8.9	9.2
3.57	3.38	2.63	3.53	3.36	1.60	2.08	2.06
1.40	1.40	1.25	1.20	1.15	1.15	1.15	1.15
2%							
31.33	29.21	27.24	26.60	23.42	21.05	21.10	21.30
7,313	7,145	7,167	7,296	7,268	5,746	5,907	6,472
7,716	7,410	7,406	8,558	8,610	8,335	7,955	7,315
24,031	28,522	33,382	37,676	42,827	45,634	49,451	53,086
1,910	1,900	1,893	1,883	1,872	1,807	1,807	1,807
38							

Directors

S. J. Begun	Evelyn L. Lynn
Claude M. Blair	George McCuskey
William D. Cameron	Scott Mueller
Emmett P. Dowling	H. Chapman Rose
George E. Enos	John Sherwin
John H. Harris	S. Blackwell Taylor
William G. Laffer	A. L. W. Williams

James L. Myers, *Honorary Director
and Chairman Emeritus*

Officers

William G. Laffer, <i>President</i>	Thomas E. Lynch, <i>Vice President</i>
S. J. Begun, <i>Vice President</i>	Ralph E. Schey, <i>Vice President—Treasurer</i>
William D. Cameron, <i>Vice President</i>	Arthur D. Schwope, <i>Vice President</i>
John H. Harris, <i>Vice President</i>	Wilbur D. Prescott, <i>Secretary</i>

Transfer Agents

The Bank of New York
Central National Bank of Cleveland

Registrars

Morgan Guaranty Trust Company of New York
The Cleveland Trust Company

Clevite units

Aerospace Division

540 E. 105th Street
Cleveland, Ohio 44108

John Newell, III
General Manager

British Bearing Division

23, Aintree Road
Perivale, Greenford
Middlesex, England

L. H. Begg
General Manager
European Bearing Manager

Brush Clevite Company Limited

Hythe, Southampton
England

D. John Taysom
Managing Director
European Electronics Manager

Brush Instruments Division

37th and Perkins
Cleveland, Ohio 44114

Maurice S. Hartley
General Manager

Cleveland Graphite Bronze Division

Branch plants in Bridgeport,
Caldwell and McConnellsville, Ohio

General Offices:
17000 St. Clair Avenue
Cleveland, Ohio 44110

William H. Martin
General Manager

Clevite de Mexico, S.A. de C.V.

Apartado Postal 143
Naucalpan, Edo. de Mexico
Mexico

Percy B. Babb
General Manager

Harris Division

Facilities at Milan and
Napoleon, Ohio.

General Offices:
Lockwood Road
Milan, Ohio 44846

Kenneth M. Leighton
General Manager

Clevite Limited

1177 Talbot Street
St. Thomas, Ontario
Canada

Matthew J. Fleming, Jr.
General Manager

Clevite-Metall G.m.b.H.

7831 Eichstetten a.K.
Hauptstrasse 3
Germany

Dr. Peter M. Gäfgen
General Manager

Clevite Service Europe, S.A.

43-45 Cadix Straat
Antwerp
Belgium
Ben Bailey
Managing Director

Clevite Italia S.p.A.

Via Aeroporto 86/b
Gardolo di Trento
Italy

Leonard J. Connor
Managing Director

Ordinance Division

540 E. 105th Street
Cleveland, Ohio 44108

Thomas E. Lynch
General Manager

Vice President
Clevite Corporation

Piezoelectric Division

232 Forbes Road
Bedford, Ohio 44014

Norman R. Klivans
General Manager

Advance Development

540 E. 105th Street
Cleveland, Ohio 44108

Dr. David B. Parkinson
Director

Electronic Research Division

540 E. 105th Street
Cleveland, Ohio 44108

Dr. Hans Jaffe
Director

Mechanical Research Division

540 E. 105th Street
Cleveland, Ohio 44108

Dr. Milton L. Selker
Director

INTERNATIONAL AFFILIATES

Bimetal Bearings Limited

Huzur Gardens
Sembiam
Madras 11
India

Victor A. Watts, *Director*

K. L. Ganapati, *General Manager*

Nippon Dia Clevite Company Limited

687, 1-Chome, Mimomi
Narashino-Shi, Chiba-Prefecture
Japan

Chikaharu Hayashi, *President*

T. J. Maloney, *Managing Director*
Yukio Murakami, *Managing Director*

Diesel Mexicana, S.A.

Avenida Veracruz No. 107
Mexico 11, D.F.

Heino Schwenk
Managing Director

CLEVITE

CORPORATION

17000 St. Clair Avenue, Cleveland, Ohio 44110